ABSTRACT

A system and method of trading option contracts, such as foreign currency option contracts, is described. In one embodiment, a system and method for web-based or network-based interactive trading of currency options is described. Users of the system provide volatility runs of currency options, deal on existing offers to sell or bids to buy, or may improve on existing offers to sell or bids to buy. Option contracts may be priced in units of volatility. Users of the system described include banks of all sizes and traders or dealers employed by banks or other financial institutions. The system and method provide automatic price quotations for a requested option contract by polling internal volatility surfaces of users for prices on the requested contract. Additionally, the system and method ensure a more orderly pattern of trades by categorizing the users into discrete tiers which determine a user's obligations to provide offers and bids to the system and which determine a user's opportunities and rights to trade on the system. Furthermore, a system and method is described for automatically withdrawing quotes for offers to sell or bids to buy option contracts after expiration of a prescribed period of time or prescribed movement in the market underlying the option contract.

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